

# CONGRESSIONAL BUDGET OFFICE PAY-AS-YOU-GO ESTIMATE

July 9, 1998

# H.R. 3130 Child Support Performance and Incentive Act of 1998

As cleared by the Congress on June 26, 1998

#### **SUMMARY**

H.R. 3130, the Child Support Performance and Incentive Act of 1998, would make several changes to the child support enforcement program. It would establish an alternative penalty procedure for states that fail to operate a single statewide automated child support enforcement system and allow the federal government to fund alternative configurations of automated systems. It would make several other changes that CBO estimates would have no budgetary effect, including changing the formula for awarding incentive payments to states and lowering the penalties on states that delay adoptions across state lines. CBO estimates the bill would have no net budgetary effect over the 1999-2003 period--it would save \$220 million from 1999 to 2001 and cost \$220 million in the following two years.

#### ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3130 is shown in Table 1. The budgetary impact of this legislation falls within function 600. For purposes of enforcing pay-as-you-go procedures, only the effects in the current year, the budget year, and the succeeding four years are counted.

Table 1. Summary of Pay-As-You-Go Effects

		By Fiscal Year, in Millions of Dollars										
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008		
Change in outlays	-100	-55	-65	10	210	0	0	0	0	0		
Change in receipts		Not applicable										

### **BASIS OF ESTIMATE**

H.R. 3130 contains several provisions that would affect direct spending. It would slightly increase the amount the federal government collects in penalties from states and slightly increase federal spending on state child support computer systems.

Table 2. Estimated Effects of H.R. 3130 on Direct Spending

		By Fiscal Year, in Millions of Dollars								
	1999	2000	2001	2002	2003	5-year total				
СН	ANGES IN D	IRECT SPE	NDING							
Alternate Penalty Procedure										
Estimated Budget Authority	-105	-60	-65	10	210	-10				
Estimated Outlays	-105	-60	-65	10	210	-10				
Authority to Waive Statewide Computer										
System Requirement										
Estimated Budget Authority	5	5	0	0	0	10				
Estimated Outlays	5	5	0	0	0	10				
Total										
Estimated Budget Authority	-100	-55	-65	10	210	0				
Estimated Outlays	-100	-55	-65	10	210	0				

**Alternative Penalty Procedure**. Current law requires states to have implemented, by October 1, 1997, statewide automated systems to be used for managing child support cases,

monitoring compliance, initiating enforcement actions, and reporting on performance. Many states failed to meet that deadline. This bill would change the way the Secretary of Health and Human Services (HHS) would collect penalties from states that do not meet the requirement. CBO estimates that the new penalty structure would reduce federal outlays by \$10 million over the 1999-2003 period and would have no effect thereafter.

**Current Law**. The child support enforcement program helps families collect child support payments from absent parents. Federal and state governments jointly fund the program, with the federal government paying 66 percent of the administrative costs. Federal spending for such administrative costs totaled over \$2 billion for all states in 1997. The program is operated by states, but the federal government sets many of the program's requirements, including a requirement to operate a statewide automated child support system.

The HHS Secretary audits states every few years to ensure they are in compliance with program requirements. If a state is not in compliance and remains out of compliance for more than a year, the Secretary is required to charge the state a penalty. The initial penalty is 1 or 2 percent of the state's funding under the Temporary Assistance for Needy Families (TANF) program--a \$16.5 billion grant program. The penalty rises for each year of continued noncompliance up to 5 percent of the TANF grant.

In January 1998, the Secretary sent letters to 16 states informing them that they were not in compliance with the automated system requirement. According to HHS staff, the majority of these states will probably complete their automated system within a year or two, but a few could be several years away from having a fully functional system. CBO expects that the Secretary will audit states that do not meet the requirement, but that most states will complete their systems during the audit or the following year. CBO estimates that a few large states will remain out of compliance and the Secretary will assess penalties totaling \$250 million: \$50 million in 2001, \$100 million in 2002, and \$100 million in 2003.

The penalties on states could be much higher than the audit penalties if the Secretary disapproves some state plans for child support enforcement. States are only eligible for federal funding of child support administrative costs if they have an approved state plan. As of October 1, 1997, the Secretary is required to disapprove any state plan if the state is not operating a statewide automated system. If a state plan is disapproved, then the state cannot receive any money from the federal government to run its child support program. Also, if a state does not have an approved state plan for child support, it may not receive any funding under TANF.

CBO has assumed, however, that HHS will not disapprove any state plans. A state may appeal the Secretary's notice of her intention to disapprove its state plan through a process that may take many years. The state plan would not be disapproved and funding withheld

until all appeals are exhausted. The estimate assumes that all states complete their automated systems before appeals are exhausted so that the Secretary would never need to disapprove a state plan.

**H.R. 3130**. The bill would give the Secretary an alternative to applying the audit penalties or disapproving state plans. The alternative penalty would rise from 4 percent of child support administrative expenses in the first year of noncompliance to a maximum of 30 percent of expenses for the fifth and all subsequent years of noncompliance. If a state achieves compliance with the automated system requirement during the following year, the Secretary would forgive 90 percent of the previous year's penalty.

CBO estimates that slightly higher penalties would be collected under the bill than under current law. Under H.R. 3130, the Secretary could charge penalties sooner because HHS would not have to do a full audit of a state or allow a year for the state to come into compliance. Because penalties would be applied sooner, fewer states would have completed systems when penalties are charged, and more states would pay penalties. CBO estimates that states would pay penalties totaling \$260 million over the 1999-2003 period, \$10 million more than than we estimate under current law.

## **Authority To Waive Statewide Automated System Requirement**

H.R. 3130 would allow the federal government to fund alternative configurations of automated systems. Under current law the federal government provides matching dollars only to build a single statewide automated system. The Secretary has the authority to approve alternative configurations of automated systems, but has only limited ability to fund them. An alternative system configuration links various automated systems together so that they operate as a unified statewide system even though the component systems may use different hardware and software. Under HHS regulations, federal matching funding for alternative system configurations is limited to paying for a central database, any linkages, and minor upgrades to component systems that are linked.

H.R. 3130 would allow federal matching funds for alternative configurations, including upgrades to component parts of a linked system. CBO surveyed automated system experts in federal and state governments. The experts did not agree whether an alternative system would be more or less expensive than a single statewide system. Most agreed that it is not possible to determine which is cheaper in the abstract--the relative costs depend on particular elements of the systems being compared. Based on these conversations, CBO estimates that funding of alternative systems would not necessarily cost more or less, in general, than funding single statewide systems.

The only instance in which the new funding would clearly cost the federal government is if a state was committed to building an alternative system under the current law and planned to use state funding for significant upgrades to component systems. If federal funding is made available for alternative configurations, such a state would receive more federal funding than under current law. Only one state, Illinois, has committed to an alternative system configuration and still has significant work remaining to completion. Based on information from the state of Illinois and HHS staff, CBO estimates that Illinois would receive an extra \$5 million in federal funding in each of the fiscal years 1999 and 2000 if H.R. 3130 is enacted.

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